Mahabal Metals Private Limited

March 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	34.59 (Reduced from 54.96)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	52.00	CARE A; Stable / CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A; Stable / CARE A2+ (Single A; Outlook: Stable / A Two Plus)
Short Term Bank Facilities	5.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**91.59 (Rs. Ninety-One Crore and Fifty-Nine Lakhs Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmations of the long-term ratings and revision in the short-term ratings to the bank facilities of Mahabal Metals Private Limited (MMPL) factors in improved scale of operations in 9MFY22(refers to April 01 to December 31) and stable profitability margins resulting in to improved liquidity position of the company. The ratings continue to derive strength from the established track record of the company in the casting industry, qualified and experienced promoters, long term association with Original Equipment Manufacturers (OEMs). The ratings are also factors by comfortable leverage and moderate debt coverage indicators. The rating strengths, however, continue to remain tempered by customer and segment concentration risk, competition from organized and unorganized players and inherent risk associated with the volatility in raw material prices.

Rating Sensitivities

Positive Sensitivity: Factors that could lead to positive rating action/upgrade:

- ✓ Improvement in total operating income above Rs.700 crores on a sustainable basics.
- ✓ Improvement in operating cycle of the company below 60 days on a sustainable basics

Negative Sensitivities: Factors that could lead to negative rating action/downgrade

- × Any un-envisaged increase in debt or withdrawal of unsecured loans by promoter or increase in group exposure resulting in deterioration of overall gearing ratio over 0.75x on a sustained basis.
- × Deterioration in PBILDT profitability margin of the company to 10% or below on a sustained basics.

Detailed description of the key rating drivers

Key Rating Strengths

Established track record of the company, qualified and experienced promoters

MMPL has a track record of two and half decades and has established itself as manufacturer of auto components. The company is promoted by first generation promoters – Mr. Shrikant Mahabal, Mr. Hemant Mahabal and Mr. Nishikant Mahabal, all having wide experience of more than twenty-five years in the industry. The directors are involved in day-to-day operations of the company, handling respective functions, and are supported by a team of qualified and experienced professionals.

Long term association with reputed clientele base ensuring repeated orders

Over the years, the Mahabal group has established long standing relationship with several major OEMs such as Mahindra & Mahindra Limited (rated CARE AAA; Stable/ CARE A1+), Tata Motors Limited (*rated CARE AA-; Stable/ CARE A1+*), Ford India Private Limited helping them become Tier 1 suppliers for these companies. The company has established itself as a preferred supplier of critical components for these Original Equipment Manufacturers (OEMs) and has received several awards over the years, highlighting strong customer relationship, ensuring repeat orders. These 3 customers contributing around 54% of total operating income in FY21 (refers to

Improved scale and stable PBILDT margins; albeit scale remain moderate

The company's total operating income witnessed a decline of 4% on a YoY basis to Rs.317.43 crore during FY21 from Rs.330.45 crore. The decline was on account of slow-down in automobile sector as a result of covid led impact. However, led by improved demand post easing of lock down, despite the lockdown for first 2 months during 9MFY22, MMPL has achieved total operating income of around Rs.362.45 crores, surpassing FY21 full year revenue. Despite the overall slowdown in the industry and disruption of operations with COVID-19 induced lockdown and subsequent restrictions, the company has managed to maintain its PBILDT margin in the range of 15%-16%. MMPL reported a PBILDT margin of 16.13% in FY21 similar to FY20 levels, despite marginal decline in revenue by 4%. Further the company registered a PAT margin of 4.44% in FY21 as against 4.88% in FY20 and 6.18 in FY19. The cost structure consists majorly of cost of raw material (41% of TOI in FY21 and 37% of TOI in FY20) pertaining to steel, Stainless steel, Alloys & Scrap, etc. Going ahead on the backdrop of improved demand coupled with new customer additions the TOI of MMPL is expected to witness strong growth

and profitability are expected to remain stable going ahead. However, the scale of operations continues to remain moderate and subject to cyclicality of the end user sectors particularly tractors and commercial vehicles. Hence, the ability of the company to achieve growth in scale of operations by maintaining its profitability margin remain critical from credit perspective.

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[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capital structure and modest debt protection metrics
Over the years, with accretion of profits to its net-worth coupled repayment long-term debt and the capital structure of the company remained comfortable. The lower debt repayment, unutilized bank lines and accretion of profits to reserves resulted improvement in the overall gearing ratio over the years, which stood at 0.50x as on March 31, 2021 (as compared to 0.57 in FY20 and 0.88x as on March 31, 2019). As on March 31, 2021, debt to equity has also improved and stood comfortable at 0.26x (PY 0.40x). Further, the debt coverage indicators continued to remain comfortable in FY21. The total debt/GCA, which stood at 2.32x as at the end of FY21 (as compared to 2.22x in FY20) and the PBILDT interest coverage ratio also was at 7.86x in FY21 as against PY 6.74x.

Key Rating Weaknesses

***Customer and segment concentration risk*:**
MMPL is exposed to customer concentration risk with the top ten customers contributing ~92% of the total sales during FY21 (as against ~95% of the total sales during FY20). Mahindra Group and Ford India Private Limited collectively accounted for ~40-45% of the total sales over past 3 years. However, over the last couple of years, has been taking necessary steps to reduce this customer concentration. During FY19-FY21, MMPL has added new reputed clients such as Honda Motor Company Limited, Isuzu Motors India Private Limited, Whirlpool of India Limited, Toyota, Maruti Suzuki India Limited, ZF, and Fiat India Automobiles Private Limited, etc. in the domestic market. MMPL has been associated with M&M, Ford, Tata Motors Limited and Volkswagen India Private Limited since inception, and the management believes that the learning curve achieved from interactions and negotiations with these OEM's has had helped the company in terms of better cost controls, amicable pricing, and strong internal controls, which has helped in maintaining its margins.

Competition from organized and unorganized players
MMPL manufactures products and operates in an industry which comprises of several players in the organized as well unorganized sector and is also characterized by high degree of fragmentation. There also exist big sized players resulting in intense competition in the industry. The casting industry is characterized by low entry barriers and low level of product differentiation and availability of standardized machinery for production. However, it is challenging for new entrants to achieve preferred vendor status with OEMs.

Risk associated with volatility in raw material prices
The key raw materials for castings comprise of pig iron and steel, the prices of which fluctuate on a regular basis due to volatility in the global commodity markets. MMPL has established raw material sourcing arrangement through local suppliers. Moreover, MMPL operates in an industry where the raw material cost is one of the major cost drivers, (constituting ~41% of total cost of sales for last three years ended FY21) to have a bearing on operating margin. However, prices negotiated at regular intervals with the customers at intervals enables the company to pass on the raw material price rise however only to a limited extent.

Liquidity Analysis - Adequate
Liquidity of MMPL is characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Liquidity is marked by sufficient cash accruals to repayment obligations, unutilized bank limits and cash balance. MMPL reported a GCA of Rs.38.94 crore in FY21. Furthermore, during FY22 to FY25, the repayment obligations are expected to be in the range of Rs.12 crore-Rs.14.28 crore against which the company is expected to generate sufficient GCA to the tune of nearly Rs.50 crore-55 crore for upcoming years. The company had an unencumbered cash and cash equivalent to the tune of Rs.21.03 crore as on December 31, 2021. During FY21, directors infused funds of around Rs.30.94 crores in the form of interest (@11%) bearing unsecured loan for working capital purpose. In addition, the utilization of fund-based limits continues to be on lower side.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology- Manufacturing Companies
Liquidity Analysis of Non-Financial Sector Entities
Auto Ancillary Companies

About the Company
MMPL began operations as a small workshop in the year 1965 and later in 1990 entered in manufacturing of auto components and auto ancillaries. MMPL is presently engaged in manufacturing of Gray Iron (GI) castings, Steel Galvanised (SG) iron castings and machined auto castings and is a Tier I supplier to the Original Equipment Manufacturers (OEMs) in the passenger vehicle (PV) segment. The major products manufactured by company are flywheel, disc and drum which are critical equipment related to brake assembly. MMPL caters to major OEM's such as Mahindra and Mahindra Ltd, Ford India Pvt. Ltd., Tata Motors Ltd, Volkswagen India Pvt Ltd etc. MMPL operates out of two plants i.e. Miraj, Maharashtra and Sanand, Gujrat.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	330.45	317.43	362.65
PBILDT	54.19	51.20	42.71
PAT	16.14	14.10	13.18
Overall gearing (times)	0.58	0.50	NA
Interest coverage (times)	6.76	7.87	NA

A: Audited, UA: Unaudited, NA: Not Available

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	July-2025	26.86	CARE A; Stable
Fund-based - LT/ ST-CC/PC/Bill Discounting		-	-	-	52.00	CARE A; Stable / CARE A1
Fund-based - LT-Term Loan		-	-	-	7.73	CARE A; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	5.00	CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	26.86	CARE A; Stable	1)CARE A; Stable (01-Apr-21)	-	1)CARE A; Negative (20-Jan-20)	1)CARE A; Stable (29-Oct-18) 2)CARE A; Stable (08-Oct-18)
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	LT/ST*	52.00	CARE A; Stable / CARE A1	1)CARE A; Stable / CARE A2+ (01-Apr-21)	-	1)CARE A; Negative / CARE A2+ (20-Jan-20)	1)CARE A; Stable / CARE A2+ (29-Oct-18) 2)CARE A; Stable / CARE A2+ (08-Oct-18)
3	Fund-based - LT-Term Loan	LT	7.73	CARE A; Stable	1)CARE A; Stable (01-Apr-21)	-	1)CARE A; Negative (20-Jan-20)	1)CARE A; Stable (29-Oct-18)
4	Non-fund-based - ST-Bank Guarantee	ST	5.00	CARE A1	1)CARE A2+ (01-Apr-21)	-	1)CARE A2+ (20-Jan-20)	1)CARE A2+ (29-Oct-18)

Annexure 3: Detailed explanation of covenants of the rated instrument/facilities: NA

Name of the Instrument	Detailed explanation
A. Financial covenants	
Current ratio	Should not be less than 1.33x
Total outside liabilities/Adjusted Tangible Net Worth	Should not be more than 4.50x
Fixed asset Coverage Ratio	Should not be less than 1.25x
DSCR ratio	Should not be less than 1.25x
B. Non-financial covenants	
Non-submission of Stock Statement by 10th of succeeding month	Will attract penal interest at 2%
Non submission of CMA/Renewal data for the period beyond 1 month	Will attract penal interest at 2%
Non submission of Financial Statement of previous year within 6 months of closure of	Will attract penal interest at 2%

Name of the Instrument	Detailed explanation
financial year	
Non-renewal of insurance policy in timely manner / inadequate insurance policy	Will attract penal interest at 2%

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-CC/PC/Bill Discounting	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details for this Company
To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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